

IONIA COUNTY, MICHIGAN

AUDITORS' REPORTS ON THE
INTERNAL CONTROL STRUCTURE

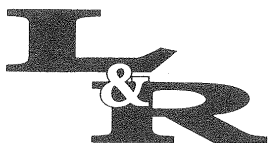
FOR THE YEAR ENDED DECEMBER 31, 2003



Layton & Richardson, P.C.
Certified Public Accountants

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AUDITORS' LETTER OF COMMENTS AND RECOMMENDATIONS

Board of Commissioners
Ionia County
Ionia, Michigan

We have audited the financial statements of Ionia County for the year ended December 31, 2003, and have issued a separate report dated April 2, 2004 on those statements. As part of the audit process, we tested and evaluated the system of internal accounting control and the procedures used to record the financial transactions of Ionia County. These tests and evaluations are important to the audit process because they serve as the basis for our opinion on the reliability and accuracy of the financial statements.

The management of Ionia County is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with U.S. generally accepted accounting principles. Because of inherent limitations in any system of internal accounting control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with procedures may deteriorate.

Our study and evaluation of the internal accounting control system would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of internal accounting control of Ionia County.

PRIOR YEARS' RECOMMENDATIONS

We made the following recommendations concerning internal control weaknesses during prior years' audits:

SEGREGATION OF DUTIES

We recommended that the department heads establish policies which would provide for periodic detailed review of all accounting procedures on a random basis. We realize that the resources and personnel are limited so this is not always possible.

ACCOUNTING CONTROL FOR FIXED ASSETS

Governmental accounting systems have historically recorded the acquisition of property, buildings and equipment as expenditures in the year of purchase. As a result, the financial statements do not report material amounts of assets which are available for use in the current operations of the County.

We recommended that appropriate accounting records be established to record the cost of fixed assets currently on hand and to account for future purchases as they occur. The addition of this information to the County's financial statements will enable the County to more accurately reflect its financial position. **Management response: This has been implemented.**

FINANCIAL STATEMENT PRESENTATION SHOULD BE COMPLETE

The supplemental data section of the County's financial statements for the year ended December 31, 2000 does not include a Combining Statement of Changes in Assets and Liabilities – All Agency Funds. This statement is required by the Michigan Department of Treasury. **Management response: This recommendation has not been implemented.**

PRIOR YEARS' RECOMMENDATIONS - Continued

PAYROLL

1. Health Department

We noted during the audit that not all employees fill out the State W-4's. All employees should complete a Federal and State W-4 yearly and they should be checked against current computer records and filed in each employee's file. This will ensure the accuracy of payroll withholding deductions. **Management response: This recommendation has been implemented.**

2. Clerk's Department

Someone should review the payroll other than the person who enters the payroll information into the computer. Another individual should review the paychecks against the timesheet before they are signed. This will ensure that all checks are for the proper amount. This recommendation will provide better controls in the payroll function area. **This has not been implemented. See current year recommendations.**

CASH DISBURSEMENTS

Clerks Department

Some general accounts disbursement invoices were not cancelled after payment. All invoices or backup for general account disbursement should be cancelled with a "Paid" stamp or the voucher number. This will ensure invoices are not paid twice. **This will be implemented in 2005. See current year recommendations.**

CASH RECEIPTS

1. Sheriff's Department

The Sheriff's department receipts are not kept in numerical order. Receipts should be kept in a binder in numerical order. This will make it easier to find information on past receipts and decrease the chance of missing or lost receipts. **Management response: The receipts are now kept in a box.**

2. District Court

District Court keeps track of cash receipts manually. We recommend that the daily cash receipts be recorded on a computer spreadsheet. This would also eliminate the need for manual calculation, which would reduce the chance of error, and possibly save time. **Management response: Currently using spreadsheet, but writing information in by hand.**

The person who collects the money is the same individual who makes the daily deposit. Two or three individuals should perform collecting, recording, and making the daily deposit. This would provide better controls over the deposits. **Management response: This has not been implemented. The same person performs these duties. However, the person doing these duties is changed each week; they rotate these duties from person to person each week.**

BUILDING INSPECTION

Currently, the Building Inspection revenues and expenditures are recorded in the General Fund. In order to comply with the State of Michigan laws, a new special revenue fund should be set up to account for the Building Department's revenues and expenditures. **Management response: This will be implemented in 2005.**

PRIOR YEARS' RECOMMENDATIONS - Concluded

SHERIFF'S DEPARTMENT

The commissary fund's order sheets are not kept. We recommend keeping the original Swanson order sheet that the inmates sign to authorize withdrawals from their accounts. This will help provide appropriate records and accurate backup if there are any disputes made by the inmates. **Management response: They are in the process of implementing.**

BUILDING DEPARTMENT

1. The cash/checks are kept at the director's desk during the day. We recommend that the cash/checks be kept in a locked drawer/cabinet or use a cash register. We also recommend checks be stamped "For Deposit Only" immediately after receipt. This will provided better controls in the cash receipts area. **Management response: This has been implemented.**
2. The receipts are not in numerical order from beginning of the year to the end of the year. Rather, the receipts have different numbers for building permits, plumbing permits, mechanical permits, and electrical permits. We recommend that the receipts be in numerical order. This will make it easier to find information on past receipts and decrease the chance of missing or lost receipts. **Management response: Their receipts are specially printed for them by a printing company and they are unsure as to whether or not they will be able to be implement.**

ANIMAL SHELTER

1. The cash/checks are kept in a red box that is unlocked. We recommend that this red box be locked at all times. This will prevent any person without a key from accessing the cash/checks. We also recommend checks be stamped "For Deposit Only" immediately after receipt. **Management response: This has been implemented.**
2. Deposits are not made in a timely matter and the receipts from the Treasurer's office are not kept. This created problems in tying out the cash receipts from the Animal Shelter to the Treasurer's office. There were differences noted in the individual deposits to the Treasurer's office. Management was unable to explain the differences as they did not keep the receipts from the Treasurer's office. We recommend that the County further investigate these differences. We also recommend keeping the receipts from the Treasurer's office and making more timely deposits. This will help to ensure the cash receipts from the Animal Shelter agree with the Treasurer's office, and reduces the chances of cash/checks being lost or misplaced. **Management response: The copies of the Treasurer's receipts are still not being kept.**

COMMISSION ON AGING

1. There are four employees who handle cash in the office and make their own deposits to the Treasurer's office. We recommend spot-checking and/or double checking the employees work more often. The deposits should be checked by the Director before going to the Treasurer. This will verify the correctness of the deposits. **Management response: This has been implemented.**
2. We noted during the audit, that checks received are not stamped "For Deposit Only" immediately after receipt. The person receiving the check out in the field or the person opening the mail should have a stamp with the name of the bank, the name of the account, the account number, and the words "For Deposit Only", and that stamp should be applied immediately after receipt. This will ensure better control over cash receipts. **Management response: This has been implemented.**

We make the following recommendations concerning internal control weaknesses during the current year audit:

CURRENT YEAR RECOMMENDATIONS

EQUALIZATION

1. The cash box is currently left unlocked. We recommend that the cash box be locked at all times to prevent theft.
2. Currently, checks received are not being stamped "For Deposit Only" immediately after receipt. We recommend that all checks be stamped "For Deposit Only" immediately upon receipt. This will help prevent fraud and theft.
3. Receipts are being given only to those customers who ask for them. We recommend that a receipt be made out for any cash received. This will improve the paper trail and allow for an easier reconciliation of the cash box. **Management response: This recommendation will be implemented.**
4. Deposits are only being made once a month and one month was missed. We recommend that the deposits be made more frequently. This will ensure that all cash has been transmitted in a timely manner. **Management response: This recommendation will be implemented.**

COUNTY PARKS

1. Monies received are not being kept in a secure place. We recommend that the desk drawer be locked or lockbox be used to help prevent theft. **Management response: This recommendation will be implemented.**
2. Deposits are not being made in a timely manner. We recommend that the deposits be made once a week with the Treasurer's office. This will eliminate a large accumulation of cash and help to prevent theft. **Management response: This recommendation will be implemented.**
3. Receipts are being given only to those customers who ask for them. We recommend that a receipt be made out for any cash received. This will improve the paper trail and allow for an easier reconciliation of the cash box. **Management response: This recommendation will be implemented.**
4. There is currently no way to trace each individual receipt to the deposit. We recommend a spreadsheet be created. This sheet should list all of the checks and cash received for the week and should be in balance. This will provide accurate records and a paper trail. **Management response: This recommendation will be implemented.**

SHERIFF'S DEPARTMENT

Currently, any Correction Officer, Sergeant, or Lieutenant can sign checks. We recommend having two of the authorized signers sign each check. This will help to prevent fraud. **Management response: This recommendation will be implemented.**

PAYROLL

1. Currently, many employee files have missing deduction forms. Many files are also missing current approved pay rates. We recommend that a signed deduction form be in every employee file for any additional deduction on their paycheck. We also recommend that all pay increases including the annual COLA increase be included in the employee files. This will help to ensure that each employee is receiving the correct pay. **Management response: This will be implemented.**
2. Many of the W-4's in the employee files were outdated. We recommend that all employees fill out a new W-4 at least every three years. This will provide employees the opportunity to modify income tax withholdings to properly reflect their current circumstances. **Management response: This will be implemented.**
3. One person performs all the functions for payroll. There is currently no verification of input, payrates, hours paid, deductions or employees. All payroll changes need to be reviewed by the Finance Director to verify rates, employees and deductions. The Officer should also review the payroll check runs and compare the authorized hours to the hours paid. The signed paychecks should be distributed by someone independent of the payroll function. This will help to eliminate the possibility of payments being made to fictitious employees, or for the wrong amounts. **Management response: This will be implemented.**

CURRENT YEAR RECOMMENDATIONS - Concluded

GENERAL DISBURSEMENTS

One person enters the vouchers and reviews their own work. When the checks are sent down for a signature, the voucher packet is not sent with the checks. The checks are then given back to the original person for sorting. The Treasurer's office receives the checks to mail. There is no verification that disbursements have been properly authorized. We recommend that someone other than the check preparer review the voucher packs for approval. This will help prevent the possibility of unauthorized payments. **Management response: This will be implemented.**

BUILDING DEPARTMENT

We noted during our audit that deposits to the Treasurer are not being made in a timely manner. We recommend making weekly deposits that are in balance with the back up documentation. This recommendation will improve controls over cost.

PROBATE COURT

We noted during our audit that one person is responsible for handling all the cash receipts. We recommend that one person opens the mail and another person prepare the deposit for the Treasurer. This recommendation will provide better controls over the cash receipt area.

We are grateful to the County employees for their assistance and cooperation extended to us during the audit.


Certified Public Accountants

East Lansing, Michigan
April 2, 2004

